

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SS-20 NSC-07 CIAE-00 INR-10 NSAE-00

RSC-01 EB-11 COME-00 INT-08 SP-03 PRS-01 OPIC-12

EUR-25 L-03 H-03 TRSE-00 OMB-01 DRC-01 SSO-00 NSCE-00

USIE-00 INRE-00 /127 W

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O 172120Z MAY 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC IMMEDIATE 3869

LIMITED OFFICIAL USE SECTION 1 OF 2 CARACAS 4482

EO 11652: NA

TAGS: EMIN ENRG VE

SUBJECT: NEGOTIATING SESSION ON IRON ORE NATIONALIZATION

REF: CARACAS 4133

1. JOSE P. ELVERDIN, A DIRECTOR AND ACTING PRESIDENT OF ORINOCO MINING COMPANY, CAME INTO EMBASSY TODAY AT AMBASSADOR'S REQUEST TO DISCUSS OUTCOME OF FIRST NEGOTIATING SESSION, MAY 16, WITH VENEZUELAN GOVERNMENT CONCERNING IRON ORE NATIONALIZATION. ELVERDIN ATTENDED MAY 16 MEETING WITH ORINOCO PRESIDENT STANLEY COHLMAYER. (HE SAID RAYMOND RYAN, WHO REPRESENTS PARENT FIRM, U.S. STEEL, WILL ARRIVE IN CARACAS MAY 28 TO BE THIRD MEMBER OF NEGOTIATING TEAM.) VENEZUELAN NEGOTIATORS WERE MANUEL PEREZ GUERRERO, MINISTER OF STATE FOR NATIONAL ECONOMIC AFFAIRS, AND ARGENIS GAMBOA, PRESIDENT OF CORPORACION VENEZOLANA DE GUAYANA.

2. ELVERDIN SAID THAT ORINOCO REPRESENTATIVES WERE VERY CORDIALLY RECEIVED BY PEREZ GUERRERO, WHO WAS OBVIOUSLY THE CHIEF NEGOTIATOR FOR VENEZUELA AND BY HIS VENEZUELAN COLLEAGUE, GAMBOA, AND SESSION WAS FRUITFUL AND ENCOURAGING. TALKS WERE IN ENGLISH AND HOSTILITY THAT HAD BEEN EVIDENT IN MAY 8 MEETING WITH MINISTER OF MINES AND
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HYDROCARBONS, REFTTEL, HAD BEEN REPLACED BY ATMOSPHERE OF CALM

CORDIALITY.

3. PEREZ GUERRERO GAVE ORINOCO REPRESENTATIVES ASSURANCES AS TO INTENTION OF VENEZUELAN GOVERNMENT TO ALLOW ORINOCO TO MEET ITS CONTRACTUAL OBLIGATIONS AND COMMITMENTS TO SUPPLY IRON ORE TO BOTH EUROPEAN AND U.S. MARKETS. AT SAME TIME, PEREZ GUERRERO INDICATED CLEARLY THAT GOVERNMENT WISHES TO PHASE DOWN AS QUICKLY AS POSSIBLE AND ULTIMATELY PHASE OUT EXPORTATION OF IRON ORE. THUS, COMPANIES SHOULD NOT TAKE ON NEW COMMITMENTS, AND WITH RESPECT TO EXISTING COMMITMENTS, SHOULD SUPPLY ORE AT MINIMUM LEVEL PERMITTED IN CONTRACTS WHERE AMOUNT IS VARIABLE. IN CASE OF U.S. MARKET, THERE ARE OF COURSE NO CONTRACTS, SINCE SHIPMENTS ARE TO PARENT FIRM. PEREZ GUERRERO RECOGNIZED THIS FACT AND SUGGESTED WILLINGNESS OF GOVERNMENT TO ALLOW SUCH SHIPMENTS TO CONTINUE UNTIL U.S. STEEL CAN PHASE THEM OUT IN FAVOR OF ORE FROM OTHER SOURCES. HE ASKED HOW MUCH ORE WOULD BE REQUIRED FOR THIS PURPOSE AND OVER WHAT PERIOD. COHLMeyer AVOIDED SPECIFYING AN AMOUNT BUT HE TOLD VENEZUELAN

THAT IT WOULD TAKE AT LEAST SEVEN YEARS FOR U.S. STEEL TO MAKE OTHER ARRANGEMENTS TO REPLACE ORE FROM VENEZUELA.

4. WHEN QUERIED AS TO HOW, IF IT IS INTENTION OF GOV TO REDUCE EXPORT OF IRON ORE, PRESENT LABOR FORCE COULD BE CONTINUED IN EMPLOYMENT AT CIUDAD PIAR MINE, ELVERDIN RESPONDED THAT IT IS INTENTION OF SIDOR GREATLY TO INCREASE ITS STEEL PRODUCING CAPACITY, AND THAT IN CONSEQUENCE VOLUME OF IRON ORE EXTRACTION WOULD CONTINUE AT PRESENT LEVEL WITHOUT REDUCTION IN LABOR FORCE. HOWEVER, IN A POLICY OF NATIONAL CONSERVATION OF MINERAL RESOURCES, VENEZUELAN GOVERNMENT HAD DECIDED TO REDUCE EXPORT OF IRON ORE TO MINIMUM PERMITTED BY EXISTING CONTRACTS, HAVING IN MIND THAT IF SAME AMOUNT OF IRON ORE WERE MADE INTO STEEL LOCALLY, IT WOULD BE OF VASTLY INCREASED ECONOMIC ADVANTAGE TO VENEZUELA.

5. VENEZUELAN INDICATED TO ORINOCO REPRESENTATIVES THAT VENEZUELAN GOVERNMENT WISHES IRON ORE COMPANIES TO CONTINUE OPERATIONS IN VENEZUELA AFTER NATIONALIZATION. NATIONALIZATION WOULD INCLUDE ONLY "EXTRACTIVE" PORTION OF COMPANIES' OPERATIONS IN VENEZUELA AND COMPANIES COULD CONTINUE TO OPERATE OTHER FACILITIES AND COULD PARTICIPATE WITH GOVERNMENT IN CREATING NEW DOWN-STEAM FACILITIES IN VENEZUELA FOR PROCESSING OF IRON ORE. PEREZ
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GUERRERO DID NOT MAKE CLEAR EXACTLY WHERE DIVIDING LINE IS BETWEEN EXTRACTIVE FACILITIES AND OTHER FACILITIES BUT PRESUMABLY THIS WOULD MEAN GOVERNMENT WOULD TAKE OVER IRON MINES AT CIUDAD PIAR, AND RELATED MINING EQUIPMENT VALUED BY ORINOCO AT BS. 45 MILLION (ABOUT \$10 MILLION), AND WOULD LEAVE OWNERSHIP OF CRUSHING AND LOADING FACILITIES AT PUERTO ORDAZ AND BRIQUETTING PLANT IN HANDS OF U.S. STEEL.

6. AS TO MEANS OF OPERATING INDUSTRY AFTER NATIONALIZATION, PEREZ GUERRERO SAID THAT VENEZUELAN GOVERNMENT WOULD WISH TO HAVE IRON ORE INDUSTRY OPERATED BY OR THROUGH ORINOCO MINING AND IRON MINES DE VENEZUELA (BETHLEHAM). ORINOCO REPRESENTATIVES TOOK THIS TO MEAN THAT THEY WOULD EITHER BE GIVEN AN OPERATING CONTRACT OR WOULD BE ALLOWED TO OPERATE MINES AS A JOINT VENTURE WITH VENEZUELAN GOVERNMENT. THUS, ELVERDIN SEES THREE OPTIONS OPEN TO ORINOCO: 1) A SERVICE CONTRACT; 2) A JOINT VENTURE; OR 3) EITHER OF ABOVE WITH AN OPPORTUNITY TO INVEST WITH VENEZUELA IN RELATED DOWN-STREAM FACILITIES.

7. PEREZ GUERRERO ALSO INDICATED THAT HE WOULD BE DISPOSED TO TRY TO HELP WITH PROBLEM CONCERNING PRICE FOR BIRQUETTES PRODUCED BY ORINOCO'S NEW BRIQUETTING FACILITY (REFTEL). GAMBOA HELPFULLY EXPLAINED TO MINISTER THAT ORINOCO IS NOW LOSING MONEY ON BRIQUETTES BECAUSE IT HAS TO SELL THEM AT \$29.50/TON TO STATE STEEL COMPANY (SIDOR) WHEN IT COULD DISPOSE OF THEM ON WORLD MARKET FOR OVER \$90/TON. MINISTER PEREZ GUERRERO SAID HE WOULD ATTEMPT TO HAVE THIS PRICE PROBLEM ADJUSTED.

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TO SECSTATE WASHDC IMMEDIATE 3870

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8. VENEZUELA'S MAJOR OBJECTIVE, PEREZ GUERRERO MADE CLEAR, IS POLITICAL ONE OF QUICKLY ASSUMING OWNERSHIP AND CONTROL OF IRON ORE RESOURCES, LEAVING DETAILS OF OPERATING ARRANGEMENTS AND POSSIBLE FUTURE INVESTMENTS, ETC., TO BE WORKED OUT OVER SOMEWHAT LONGER PERIOD

BETWEEN TWO SIDES. VENEZUELA ALSO WISHES TO AVOID EXPROPRIATION OR ANY

OTHER FORM OF JUDICIAL ACTION. VENEZUELA HOPES THEREFORE THAT IT
WILL BE POSSIBLE TO REACH A VERY QUICK AGREEMENT WITH ORINOCO UNDER
WHICH LATTER WOULD SURRENDER VOLUNTARILY ITS CONCESSION AND WOULD ALSO

SURRENDER RELATED MINING EQUIPMENT, FOR WHICH IT WOULD RECEIVE COMPEN-

SATION, PROBABLY AT NET VALUE SHOWN IN ORINOCO'S BOOKS, WITHOUT
NECESSITY OF GOVERNMENT AUDIT AND CONSEQUENT HAGGLING.

9. ISSUE OF COMPENSATION IS CLEARLY SUBORDINATE, IN TERMS OF
INTEREST OF U.S. STEEL, TO ISSUE OF ASSURING CONTINUED ACCESS TO
VENEZUELAN IRON ORE FOR AT LEAST INTERIM PERIOD THAT WILL BE REQUIRED
BEFORE U.S. STEEL'S VAST BRASILIAN RESERVES CAN BE BROUGHT INTO
PRODUCTION. COMPENSATION TO BE OFFERED BY VENEZUELA FOR MINING
EQUIPMENT WILL PROBABLY BE ACCEPTABLE, SINCE, IF PEREZ GUERRERO HAS
HIS WAY, IT WILL BE BASED ON COMPANIES' OWN FIGURES. COMPENSATION
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FOR VALUE OF IRON ORE IN GROUND IS CLEARLY OUT OF QUESTION SINCE
SUB-SOIL RESOURCES BELONG TO STATE UNDER VENEZUELAN LAW. HOW-
EVER, THERE IS POSSIBILITY OF SERIOUS CONFRONTATION OVER COMPENSATION
IN THAT U.S. STEEL HEADQUARTERS IN PITTSBURGH IS CONSIDERING
POSSIBILITY OF SEEKING COMPENSATION NOT ONLY FOR EQUIPMENT
NATIONALIZED BUT ALSO FOR LOSS OF VALUE OF ORINOCO MINING COMPANY
AS A "GOING ENTERPRISE." THIS CONCEPT, KNOWN UNDER VENEZUELAN LAW
AS "LUCRO CESSANTE" IS TOTALLY UNACCEPTABLE TO GOVERNMENT AS HAS
BEEN DEMONSTRATED OVER YEARS WITH REFERENCE TO PETROLEUM
PROPERTY. IF U.S. STEEL SHOULD ATTEMPT TO INSIST ON THIS FORM
OF COMPENSATION, EMBASSY'S JUDGMENT, AND THAT OF LOCAL ORINOCO
REPRESENTATIVES, IS THAT IT WILL PLACE IN JEOPARDY ACCOMPLISHMENT
OF ITS MAIN OBJECTIVE OF ASSURING SUPPLIES OF IRON ORE FOR NEXT
FEW CRITICAL YEARS.

10. ORINOCO'S NEXT NEGOTIATING SESSION WITH VENEZUELAN SIDE IS
SCHEDULED FOR JUNE 3 AND IT IS CONTEMPLATED THT REGULAR MEETINGS
WILL BE HELD THEREAFTER EVERY MONDAY AND THURSDAY AT 9 A.M.
NEGOTIATING TEAMS FOR BOTH SIDES ARE EXPECTED TO CONTINUE TO BE
SAME AS THOSE WHO ATTENDED MAY 16, PLUS MR. RYAN.
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